



CITY AUDITOR'S OFFICE

Pool Usage: Agreements and Administration

June 9, 2010

AUDIT REPORT NO. 1007

CITY COUNCIL

Mayor W.J. "Jim" Lane

Lisa Borowsky

Wayne Ecton

Vice Mayor Suzanne Klapp

Robert Littlefield

Ron McCullagh



June 9, 2010

Honorable Mayor and Members of the City Council:

Enclosed is the audit report on *Pool Usage: Agreements and Administration*. The Community Services Division's Parks & Recreation department (department) is responsible for administration of the Aquatics program and pool use agreements.

Community Services management has identified the need to require a level of cost recovery for aquatic activities and is currently working to update use agreements and sponsored group agreements for aquatic facilities. However, the department is recovering about 21% of aquatics program costs and needs to propose a cost recovery rate for all aquatic activities for approval by the City Council. Additionally, the department can improve its administration of pool use agreements.

We would like to thank Community Services staff for their cooperation and assistance throughout this audit.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker, CPA, CFE
City Auditor

Audit Team:

Joyce Gilbride, Assistant City Auditor
Kyla Anderson, Senior Auditor
Lee Pettit, Senior Auditor

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EXECUTIVE SUMMARY

This audit of *Pool Usage: Agreements and Administration* was included on the Council-approved FY 2009/10 Audit Plan to evaluate the effectiveness of City pool usage, including facility use agreements and sponsored group agreements for aquatic facilities.

The Community Services Division's Parks & Recreation department operates four pools: Cactus, Chaparral, Eldorado, and McDowell Mountain Ranch, which is the newest. The pools offer a variety of aquatic activities including swim lessons, water exercise, water safety lessons, recreational teams, and public swim. To expand recreational opportunities available to the public, the City also sponsors non-profit youth aquatic athletic teams, contracts with an adult masters program, and provides pool usage for seven high school swim teams.

Community Services management has identified the need to require a level of cost recovery for aquatic activities and is currently working to update use agreements and sponsored group agreements for aquatic facilities. However, the audit identified the following areas for improvement.

The Division currently recovers about 21% of aquatics program costs and needs to propose a cost recovery rate for all aquatic activities for the City Council's approval. The department did not identify and seek to recover more than \$14,000 in costs related to the Scottsdale Unified School District's use of Chaparral pool. In addition, the department can improve its administration of pool use agreements as unbilled fees totaled more than \$17,000 in fiscal year 2008/09.

BACKGROUND

The City of Scottsdale owns and operates four outdoor aquatic facilities: Cactus, Chaparral, Eldorado, and McDowell Mountain Ranch pools. Three Scottsdale pools are open year-round; Chaparral is seasonal. City pools offer a variety of aquatic activities to Scottsdale citizens and others.¹ City programs include swim lessons, water exercise classes, water safety lessons, and recreational teams. The pools also offer general public swim hours, lap swimming, and special event reservations.

To expand activities offered, the City sponsors non-profit Swim, Dive, and Synchronized youth athletic teams, contracts with an adult masters swim program, and provides pool usage for seven high school swim teams. While all four pools host swim teams, Cactus Pool is the preferred location for swim meets because it is an Olympic-sized competition pool.²

The Parks & Recreation department within the Community Services Division oversees the Aquatics program. The Parks & Recreation Manager serves as the Contract Administrator for the pool use agreements, and three Recreation Coordinators manage daily pool operations and plan the aquatic programs.

Pool Usage & Agreements

Community Services regulates group use of the City's pools through a facility use permit process. This includes the use of an automated registration and point of sale system that generates a facility use permit and captures detail information such as specific dates and times of pool use. This permit can be used independent of or in conjunction with other agreement types, which include:

General Use (Sponsored) - A youth swim team, youth diving team, and youth synchronized swimming team, also known as sponsored groups, use City pools under General Use agreements. These groups currently receive free use of aquatic facilities for regular team practices and free storage of team-owned equipment.

Intergovernmental (High School) - Scottsdale high schools use City pools based on intergovernmental use agreements in place between the City and the Scottsdale Unified School District. The agreement allows for shared use of City and school facilities. Fees are not imposed for use of facilities with the exception of out-of-pocket expenses arising from a use the host would not otherwise incur.

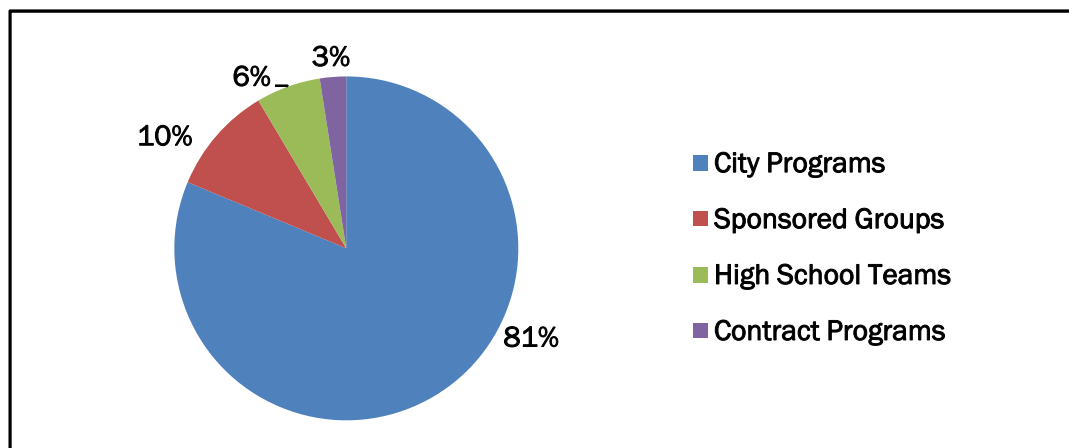
Contractual - The City has contracted with an adult masters swim program through a Request for Proposal process. The original term of the contract was February 1, 2007, to January 31, 2008, with the City's option to extend the contract for a maximum of 4 one-year periods. The program pays the City 10% of its gross revenue, about \$3,400 per year. In addition, a private high school team pays \$40 per hour totaling \$3,800 per year for its contracted use of two City pools.

¹ Non-residents may also take recreation classes, but pay a higher fee than residents.

² Olympic-sized pools have 50 meter lanes.

Based on pool-by-pool usage estimates provided by Parks & Recreation staff, Chart 1 shows fiscal year 2008/09 overall pool usage by program or group. Staff estimates that fiscal year 2009/10 pool usage is consistent with the prior year.

Chart 1: Fiscal Year 2008/09 Pool Usage



SOURCE: Auditor analysis of expenses and statistics provided by Community Services Parks & Recreation Director

Revenues & Program Costs

The Parks & Recreation department collects revenue for aquatic facility usage based on the rates and fees approved annually by the City Council. Revenue categories include aquatic lessons, pool drop-in, pool family passes, pool rentals and concessions. Some groups receive free or reduced rates for use of City pools if they qualify under Community Services' internal sponsorship policy. This policy includes receiving approval from the Parks & Recreation Commission for the reduced rate or fee waiver.

Operating costs are recorded in cost centers designated for each City pool. A separate cost center collects costs related to aquatics program administration for all pools. Utility costs for pools are also separately recorded with most City utilities in a centralized cost center under the Public Works division.

OBJECTIVES, SCOPE, AND METHODOLOGY

The City Auditor's Office performed this audit to evaluate the effectiveness of City pool usage, including use agreements for aquatic facilities. The scope of the audit included City pool activities for fiscal years 2008/09 and 2009/10, with some analysis of prior years for trends and comparative data.

To gain an understanding of the City's pool operations and use, we interviewed Division staff. We interviewed the Community Services Executive Director regarding cost recovery expectations for aquatic activities, and the Parks & Recreation Manager for information on facility use and sponsored group contract requirements and administration. We also interviewed managers and staff assigned to the pools to understand methods for tracking attendance and scheduling activities. To gain familiarity with practices for documenting program revenues, expenditures, and facility booking, we interviewed administrative personnel in the Community Services Division.

We conducted unannounced cash handling audits at three of four pools; one pool was temporarily closed. We attended various meetings held by the Parks & Recreation Commission and the Aquatics Taskforce and its subgroup, and reviewed commission bylaws, meeting minutes and aquatic policies recommended by the groups.

To perform financial analysis, we obtained accounting data from the City's financial system, depreciation schedules from the Finance & Accounting Division, and utility usage from the Public Works Division.

Based on these audit procedures, we found that Community Services management has identified the need to require a level of cost recovery for aquatic activities and is currently working to update pool use agreements and sponsored group agreements. However, the audit identified the following areas for improvement.

A recovery rate approved by the City Council needs to be established for all aquatic activities, including the level of direct and indirect costs to be recovered. Further, improvements are needed in administering pool use agreements.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, §2-117 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place in April and May 2010, with Kyla Anderson and Lee Pettit conducting the work.

FINDINGS AND ANALYSIS

1. Community Services has not developed a cost recovery standard for all aquatic programs, and currently recovers about 21% of costs.

As noted in the Background, direct pool operational costs are accumulated in individual cost centers for each pool. Aquatics program administration costs are accumulated in a separate cost center, and pool utility costs are recorded with other City utility costs in a Public Works division cost center. Table 1 reflects the costs associated with aquatics operations for fiscal year 2008/09, including the depreciation costs provided by Finance & Accounting.

Table 1: FY 2008/09 Aquatics Program Costs

Category	Amount	% of Total Costs
Pools operating expenses (Direct)	\$1,939,726	60%
Utilities (Direct)	568,610	17%
Depreciation	553,984	17%
Aquatics program administration	182,909	6%
Total	\$3,245,229	100%

SOURCE: Auditor analysis of general ledger expenses provided by Parks & Recreation, Finance & Accounting, and Public Works.

Including these same categories, fiscal year 2009/10 costs total about \$2.4 million as of May 14, 2010.

As shown in Table 2 (on page 6), in fiscal year 2008/09, the City recovered approximately 21% of the \$3.2 million spent supporting its aquatic programs. Table 2 summarizes the revenues received from each program, along with allocated costs. The total costs, as shown in Table 1, have been allocated to each program based on the Parks & Recreation department's estimates of pool usage for each pool. As also illustrated in Table 2, the City recovered approximately 1% of the more than \$600,000 of costs associated with non-City programs in fiscal year 2008/09.

Table 2: City Pool Cost Recovery by Program

Program	FY 2008/09		
	Cost	Revenue	Approximate Recovery %
City Programs	\$2,638,084	\$666,748	25%
Sponsored Programs	\$ 329,628	\$0	0%
High School Teams	197,193	4,167	2%
Contract Programs	80,323	3,431	4%
Subtotal	\$607,144	\$7,598	1%
Total	\$3,245,229	\$674,346	21%
Program	FY2009/10 (Through 5/14/10)		
	Cost	Revenue	Approximate Recovery %
City Programs*	\$ 1,959,503	\$453,117	23%
Sponsored Programs	\$238,040	\$0	0%
High School Teams	133,134	3,887	3%
Contract Programs	58,032	0	0%
Subtotal	\$429,206	\$3,887	0.9%
Total	\$ 2,388,709	\$457,004	19%

***NOTE:** Due to seasonality of pool revenues, FY 2009/10 revenues may increase approximately \$140,000 - \$190,000 by June 30, 2010.

SOURCE: Auditor analysis of general ledger revenues & expenses based on usage statistics provided by Community Services, Parks & Recreation Director.

City Council-adopted Comprehensive Financial Policy #10 requires all non-enterprise user fees to be examined annually to determine the direct and indirect cost of service recovery rate. The acceptable recovery rate and any associated changes to user fees and charges are to be approved by the City Council.

Community Services management stated that historically City-sponsored groups have not been required to pay a participation fee. Further, they acknowledged that current aquatic rates for the various programs were not necessarily developed as required by financial policies because there was not an emphasis on doing so. Instead, the division's rate setting process includes performing an analysis of cost recovery for some programs based on direct costs only, and also benchmarking to rates charged by other municipalities and private aquatic facilities.

Recommendation:

Community Services management should prepare a rate analysis that includes all costs of providing aquatic activities. The analysis could include various recovery options, such as only including direct costs, including direct and indirect costs, or including direct, indirect and aquatic program administrative costs. The recommendation to the City Council should include determining an acceptable cost recovery rate as well as setting the individual program rates.

2. Community Services absorbed \$14,317 of costs related to the Scottsdale Unified School District's use of Chaparral pool.

Chaparral pool's heating costs related to the Scottsdale Unified School District's (SUSD) use of the pool during the winter months have not been billed as provided in the intergovernmental agreement. These costs totaled \$14,317 for fiscal years 2008/09 and 2009/10.

The City of Scottsdale and SUSD have an intergovernmental agreement allowing shared use of each other's facilities. This agreement includes schools, playground areas, playing fields, multi-use courts, swimming pools, libraries and other facilities. Neither party imposes a fee on the other party for use of any facility with the exception of an out-of-pocket expense arising from a use the host would not otherwise incur. Annually, the City and SUSD reconcile charges for out-of-pocket expenses and bill for any shortfall.

Community Services management overlooked charging SUSD for pool heating costs because it resulted from a recent programming change. Before fiscal year 2008/09, Chaparral pool was open to the public during the winter months, but more recently has been heated primarily for SUSD. Because SUSD continued using Chaparral pool, the City's Special Olympics program also remained there.

Recommendation:

Community Services should implement a centralized process to track, on an ongoing basis, the out-of-pocket costs resulting from SUSD use of City facilities. These additional costs should be incorporated into the year-end reconciliation of reciprocal costs and any excess expenses billed to SUSD.

3. Pool use agreements have not been properly managed, resulting in more than \$17,000 not being collected.

Intergovernmental agreements, general use agreements, and contractual agreements govern non-City use of aquatic facilities, spelling out rights and responsibilities of each party. While the audit identified issues with the administration of pool use agreements, Community Services management reported that staff changes in December 2008 were made in an effort to improve the overall management and operation of the Aquatic Program.

- A. A private high school was billed at a reduced rate rather than the commercial rate for use of a City pool. This resulted in the City receiving \$11,661 less revenue per year from the private high school. To be eligible for a reduced rate, the Community Services Sponsorship policy requires that a group allow Scottsdale residents to participate in its activities and offer a recreation opportunity for the public.

Similarly, a public high school located in the Cave Creek Unified School District, qualifies for a reduced fee, but has instead received free use of a City pool for its swim team since 1997. The estimated annual charge to this high school should have been \$3,120 based on the City's current reduced hourly rental fee.

- B. The agreement with the adult masters swim program requires a percentage of the group's gross revenue to be remitted to the City every quarter. The last record of a payment being received was for the quarter ending June 30, 2009. According to Community Services staff, amounts due for the subsequent quarters have not been billed. Based on the past quarterly payments, the group owes the City more than \$2,500 in past due fees.
- C. The calendar year 2009 sponsored group agreements were not properly executed. The three agreements were signed by a representative of each sponsored group, and by a City senior recreation coordinator. However, based Scottsdale City Code §2-221, to have a valid license for use of City-owned property, the Parks & Recreation department would also need to provide the agreements to the City Attorney, Community Services Executive Director, and Risk Management Director for their review and approval. Calendar year 2010 sponsored group agreements were properly handled.

In addition, an agreement is not in place for the free office space provided to one sponsored group at the Cactus Pool. In return for its office space, this group has in the past funded pool upgrades including the purchase and installation of a scoreboard, purchase of new lane lines, and renovation of starting blocks. However, it is not clear whether the funded upgrades have equated to the free office space being provided. Parks & Recreation management was aware of this issue prior to the audit and is currently working with Asset Management staff to create a lease agreement with the sponsored group.

- D. Community Services' contract files did not contain needed sponsored group documentation. To ensure the groups are meeting agreement terms, documentation such as member lists showing city of residence are needed, as well as the group's financial statements, insurance certificates, board meeting minutes, attendance numbers and other required information. This documentation has not been requested from the groups.

Recommendations:

The Parks & Recreation department should:

- A. Require all pool users to pay appropriate rates based on their eligibility status.
- B. Work with Finance & Accounting to establish regular billings for amounts due as required by the various agreements.
- C. Ensure agreements are properly established, reviewed and approved by all applicable parties.
- D. Enforce pool use agreement requirements by obtaining necessary documentation from the groups.

ACTION PLAN

1. Community Services has not developed a cost recovery standard for all aquatic programs, and currently recovers about 21% of costs.

MANAGEMENT RESPONSE: Management agrees that not every aquatic program has been included in a standard cost recovery model. Community Services has developed a cost recovery standard for Pool Rental, Public Swim, Commercial lane rental, Fitness Family Passes, Punch passes, Learn to Swim programs, pool cleaning, and specialty classes, per the Fees and Charges document adopted by City Council. ***A comprehensive model is being developed in the coming fiscal year to include those areas currently not addressed.***

PROPOSED RESOLUTION: Community Services will develop a cost recovery standard for all other pool uses (not notated above) and will include these recommendations in our Fees and Charge process beginning in Fall 2010.

RESPONSIBLE PARTY: Terry Erickson

COMPLETED BY: June, 2011

2. Community Services absorbed \$14,317 of costs related to the Scottsdale Unified School District's use of Chaparral pool.

MANAGEMENT RESPONSE: ***Management efforts are underway to audit the Scottsdale Unified School District's IGA with the City of Scottsdale initiating July 2010.***

Management agrees that utility costs have not been historically charged to the Scottsdale Unified School District, as consideration for out of pocket costs. Utility costs have not traditionally been charged as an out of pocket cost by either organization, in our reciprocal use. Community Services utilizes a number of School cafeterias and gyms in summer; and do not want the school district to charge for the air conditioning for those facilities in the out of pocket assessment.

PROPOSED RESOLUTION: Consider terminating season for Chaparral Pool at end of first week in August (instead of at end of first week of November;) and relocate Scottsdale Unified School District High School teams and the Special Olympics program to Eldorado, Cactus or McDowell Mountain Ranch Pool. Heating Chaparral Pool would not be necessary; if we are able to accommodate these uses at the other facilities. Community Services has contacted the School District as of May 20th, 2010; to inform them that we may be moving the High School team to another facility. We will defer to the Scottsdale Unified School District, in regards to whether they are willing to move their Saguaro High School team to Eldorado, Cactus or McDowell Mountain Ranch Pool. If they would prefer to use Chaparral Pool, we will charge them for the heating costs for Chaparral Pool.

RESPONSIBLE PARTY: Terry Erickson

COMPLETED BY: August 15, 2010

3. Pool use agreements have not been properly managed, resulting in more than \$17,000 not being collected.

MANAGEMENT RESPONSE: Management agrees that pool use agreements need to be regularly managed.

PROPOSED RESOLUTION: Aquatics Administrative staff has developed a tickler file for the contractual RFP to be paid monthly. Additionally, the Parks and Recreation Manager's Performance Plan now reflects the responsibility for proper management of all Aquatic agreements to ensure timely review of these agreements. Recommendations have been made through the Aquatic Task force to place the responsibility for submittal of the documentation in the agreements, on the sponsored groups. Community services will ensure this documentation is reviewed regularly and timely. Community Services Administrative staff have informed the schools and teams that have been undercharged; that proper fees will be charged for their use beginning in July of 2010. Aquatic Coordinators will utilize the Facility Booking system and are currently working with Facility Booking staff, to ensure proper booking and billing of these uses.

RESPONSIBLE PARTY: Terry Erickson

COMPLETED BY: May 28, 2010

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